



STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

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March 10, 2006

Board of Directors
Delaware Manufactured Home Relocation Authority
Dover, Delaware

In planning and performing our audit of the financial statements of Delaware Manufactured Home Relocation Authority (the Authority) for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relative low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors, or fraud may occur and not be detected by such controls.

During our audit, we became aware of one other matter that is an opportunity for strengthening internal control and operating efficiency. This matter is described in Appendix A, "Other Comments and Recommendations."

This condition was considered in determining the nature, timing, and extent of the audit tests applied in our audit of the June 30, 2005 financial statements, and this report does not affect our report on those financial statements dated March 10, 2006. We have not considered the internal control since the date of our report.

This report and the attached comments and recommendations in Appendix A are intended solely for the information and use of the Authority's Board of Directors, Office of the Governor, Secretary of Finance, Director of the Division of Accounting, Office of Management and

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Budget, Office of Controller General, and the Office of Attorney General and is not to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(c), this report is public record and its distribution is not limited.

Sincerely,

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

OTHER COMMENTS AND RECOMMENDATIONS

Finding: Written Policies and Procedures

The State of Delaware *Budget and Accounting Manual*, Chapter I, states, "Department or agency heads are responsible for establishing and maintaining an effective system of internal control."

An effective system of internal controls includes:

- Ensuring that all transactions are clearly documented and the documentation is available for examination.
- Dividing the responsibility for a transaction or activity among different parties so that no one employee has complete control over the processing of transactions.

Chapter II of the *Manual* states, "A well designed system of controls must include written policies and procedures to ensure that each control objective is met."

Documentation is an important aspect of control and communication. It generally provides (1) an understanding of an entity's objectives, (2) a basis for training new personnel, (3) a means of communicating common information, (4) a source of information about accounting controls, and (5) a source of information that will aid in providing continuity in the event experienced personnel leave.

The Delaware Manufactured Home Relocation Authority does not have written policies and procedures regarding the cash receipt process.

By not maintaining sufficient policies and procedures for cash receipt transactions, the Authority has no true method of ensuring efficient and effective organizational operation.

Recommendation:

The Delaware Manufactured Home Relocation Authority develop and implement sufficient written policies and procedures governing the processing of cash receipts. These policies and procedures should incorporate information such as:

- Sufficient segregation of duties or mitigating controls
- Specific job functions for each employee, including preparation and review
- Retainage of support documentation

The procedures should include sufficient information to permit an individual who is unfamiliar with the operations to perform the necessary financial activities.

OTHER COMMENTS AND RECOMMENDATIONS

Management Response:

The board members and staff of the Delaware Manufactured Home Relocation Authority do not process any cash receipts received from landlords or tenants. As governed by Chapter 70 of the Delaware Code, all assessments are collected by the Division of Revenue at the State of Delaware and deposited into a separate trust fund designated for the Authority. The Authority then requests payment vouchers for authorized expenditures from the trust fund. As such, the written cash receipts policy maintained at the Division of Revenue governs all cash receipts of the Authority. However, a memorandum describing revenue recognition and cash receipts will be prepared and maintained with the policies and procedures of the Authority.